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¶1. (U) Summary. This is Volume 8, issue 35 of U.S. Embassy Pretoria's South Africa Economic News Weekly Newsletter.

Topics of this week's newsletter are:
- Experts Believe Inflation will Peak at 13%
- Land Expropriation Bill Shelved
- 'South Africans Act like Americans'
- Intense Lobbying Expected to Pay-Off for Motor Industry
- Infrastructure Spending to Boost Growth
- Contracts Awarded for Road Upgrades
- ACSA Utilizes Recycled Material for Upgrades
- Eskom Plans to Expand Nuclear Industry and Reprocess Nuclear Fuel
- Gold Firms Battle Costs and Falling Output
- Engen Comes Clean
- MTN Boosts Profits and Pursues Expansion
- SEACOM Cable Project Moving on Schedule
End Summary.

Experts Believe Inflation will Peak at 13%

¶2. (U) Statistics South Africa (StatsSA) reported that CPIX inflation (which excludes mortgage costs) increased from 11.6% in June to 13% in July. The rise was driven by higher electricity, food, fuel, and housing costs. Consensus forecasts had predicted that CPIX, which has now breached the South African Reserve Bank's (SARB's) 3%-6% target range for 16 months running, would increase by 12.9%. The slightly higher increase did not shake the view that consumer inflation was close to its peak, and would begin to subside in 2009, paving the way for cuts in lending rates. The SARB kept interest rates steady this month, saying CPIX would peak at about 13% in the third quarter, and then start falling "significantly" early next year. Yields on government bonds, which move in the opposite direction to prices, fell as much as 18-basis-points on the news while money markets rallied by a few basis-points. Investec Economist Annabel Bishop said she expected CPIX to creep above 13% in August, and then ease towards 11% by year-end as fuel prices continued to drop. (Business Day, August 28, 2008)

Land Expropriation Bill Shelved

¶3. (U) Parliament's Committee on Public Works announced that it has withdrawn the highly contested Expropriation Bill until further notice. The bill would have allowed the state to take over property under much easier terms than current legislation allows. Parliament's own legal advisers reckoned the bill was not constitutional, principally because it tried to prevent recourse to the courts for people whose property would have been expropriated. Public Works Committee Chairperson Thandi Tobias-Pokolo said the bill was shelved because of a lack of "proper consultation". She said the decision was reached after consultation with various stakeholders both within and outside Parliament and in the interest of broader consultation and effective public participation. She issued a statement noting that, "Advice sought by the portfolio committee indicated that more time was needed to ensure that a wide variety of stakeholders had been consulted and that public participation may have been insufficient to see the bill through." (Beeld, August 26, 2008)

'South Africans Act like Americans'

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¶4. (U) Finance Minister Trevor Manuel said South Africans were not adequately saving. He noted that they were highly indebted and consuming in a manner that mimicked patterns in the U.S. Manuel said, "households live on debt and are highly leveraged. It is not a basis of stability." "If they are borrowing for consumption then there is something wrong in the equation," he added. Manuel bemoaned the poor transition time between interest rates increases and consumer reactions. "The response to rate increases is abysmally low," he said. By comparison he noted that when a small 25-basis-point rate increase was announced in Europe, the response was immediate. Instead, South Africans needed increases as high as 700-basis-points "before they bite". The current rate tightening

cycle in South Africa, which began in June 2006, is at 500-basis-points. Manuel continued to emphasize the need for an inflation targeting policy, as inflation hit the poor and those relying on a fixed salary the hardest. He argued that a preferable price stability level would be 2%. (Beeld, August 27, 2008)

Intense Lobbying Expected to
Pay-Off for Motor Industry

¶5. (U) Substantial concessions are expected in the new Motor Industry Development Program (MIDP) after intense lobbying by automotive manufacturers. The Department of Trade and Industry (DTI's) accommodations will cost more, and the MIDP needs approval by the Treasury, which is reluctant to fund the program. Finance Minister Trevor Manuel sidestepped questions on whether Treasury would agree to a more expensive program. The automotive industry has complained about reduced benefits throughout the two-year review of the MIDP. Treasury believes the cost of the MIDP outweighs its benefits. In eleventh-hour talks, agreement was evidently reached late on August 27 for revisions due for release on August 29. DTI is understood to have made considerable concessions to boost the benefit of the production allowance to satisfy industry. The new deal is understood to exclude catalytic converter manufacturers - whose business is mainly export driven - but a separate program could be drafted to accommodate export-oriented manufacturers. A source said: "They shook hands on a final agreement. Some counterproposals were made and the minister responded to those. The manufacturers liked that response." An announcement is expected on September 1, after consultations with the National Union of Metalworkers of South Africa. The program needs cabinet approval, so it is likely to be released only by the middle of September. Industry and government stakeholders were reluctant to speak about the status of the review, but one industry source said the plan would go for cabinet approval next week. DTI spokesman Vukani Mde said an announcement was imminent but he would not give details of the program. The redrafting of the MIDP was prompted by threats that it could be challenged at the World Trade Organization (WTO)

because its export-incentive focus did not comply with WTO rules. The new program will shift from a lucrative export-based incentive to a production allowance. Automotive manufacturers were concerned that the production allowance would not offset the loss of export credits sufficiently. It is believed that DTI yielded to pressure, and sweetened the production allowance. Another source said catalytic converters did not fit into the new parameters of the program, but that DTI had promised to address export-intensive manufacturers' needs separately. It is understood that a new program could also accommodate medium and heavy commercial vehicles, which have also been excluded from the new program. (Business Day, August 29, 2008)

Infrastructure Spending to Boost Growth

¶6. (U) The Nedbank Capital Expenditure Report revealed a rise in
Q6. (U) The Nedbank Capital Expenditure Report revealed a rise in
infrastructure investment projects. Eighty new infrastructure projects valued at around R336.1 billion ($43.6 billion) were announced during the first half of 2008, compared with announcements of R194 billion ($25.2 billion) for the full-year of 2007. Capacity expansion projects by state-owned electricity producer Eskom are the main contributor to the increase in announced projects. A number of new private sector initiatives and the expansion of South Africa's transport infrastructure also contributed to the rise. Sixty-four private-sector projects worth R72 billion ($9.3 billion) were announced in the first half of the year, with finance and real estate accounting for R38 billion ($5 billion) of these projects. The manufacturing sector also featured strongly with new projects worth R25 billion ($3.2 billion compared with R15 billion ($2 billion) over the same period last year. Continued buoyant investment growth should pick up some of the slack from a slowdown in consumer demand, as household spending is weighed down by a tighter credit environment, slower real income growth, and lower levels of consumer confidence. However, strong investment growth is likely to lead to greater import demand, which will keep the pressure on South Africa's already sizable current account deficit (9% of gross domestic product in the first quarter of 2008) and its financing requirement. Given the country's reliance on foreign

financing, the greater current account deficit adds to the depreciation risk associated with the currency. (Beeld and ABSA-Newsletter, August 26, 2008)

Contracts Awarded for Road Upgrades

¶7. (U) The South African National Road Agency (SANRAL) has awarded road construction and rehabilitation company Raubex three contracts valued at about R1.15 billion ($151 million). Raubex will start upgrading roads in Gauteng, the Western Cape, and Mpumalanga in September. Raubex's Construction Division will undertake the R719 million ($95 million) contract that formed part of the Gauteng freeway improvement project (GFIP) to upgrade National Route 21 (R21). Raubex said that the other two contracts, with a combined value of R428 million ($56 million), were awarded to its Roadmac Division. The division would rehabilitate the N11 in Mpumalanga and the N1 in the Western Cape. SANRAL is investing more than R12 billion ($1.6 billion) in the first phase of the GFIP, which will improve the N1 to Pretoria, the Johannesburg ring roads, and the R21 from OR Tambo International Airport to Pretoria. The GFIP is aimed at improving the freeway network ahead of, and beyond, the 2010 FIFA World Cup. (Engineering News and Fin24, August 27, 2008)

ACSA Utilizes Recycled Material for Upgrades

¶8. (U) Airports Company South Africa (ACSA) is using recycled materials to strengthen and widen runways and taxiways in anticipation of new Airbus A380 flights. The 3.4 kilometer secondary runway at Johannesburg's OR Tambo International Airport

has been strengthened. Twelve kilometers of taxiways were also upgraded. The major taxiway was doubled in width from 30 meters to 60 meters and the central strip was strengthened to increase its load-bearing capacity. The taxiways consumed about 300,000 tons of aggregate materials that provide bulk in road surface material. Sixty percent of this bulk contained recycled asphalt material. About 80,000 tons of other recycled materials were also used as sub-base material in the road shoulders. The use of recycled material led to a cost savings of about R15 million ($2 million). Asphalt recycling is still in its infancy in South Africa, but is widely used overseas. Industry leaders are keen to promote it in South Africa. "It makes a lot of economic sense to recycle. The environmental thing also makes sense. What we're trying to do is say we need to use this material optimally, to reduce reliance on virgin materials," said South African Bitumen Association CEO Trevor Distin. Distin noted that 80% of the asphalt that comes out of pavements in the U.S. - about 80 million tons per year - is re-used. In Europe, the volume recycled is close to 50%. (Business Day, August 28, 2008)

Eskom Plans to Expand Nuclear
Industry and Reprocess Nuclear Fuel

¶9. (U) South Africa plans to expand its nuclear industry and diversify its energy mix as it battles a crippling power shortage. The shortage has hit key mining, smelting, and manufacturing
QThe shortage has hit key mining, smelting, and manufacturing sectors, trimming growth in Africa's strongest economy. Department of Minerals and Energy's Nuclear Chief Director Tseliso Maqubela announced that state-owned electricity producer Eskom is seeking commercial contracts with foreign companies to reprocess spent nuclear fuel. Maqubela told Reuters: "The preference is that we will use existing commercial reprocessing plants in the world for reprocessing spent fuel." He noted that "in the medium to long-term we will also look at whether it's economically viable to establish a reprocessing plant in South Africa, but economically it makes sense in the short-term that we use existing facilities." Eskom plans to spend R343 billion ($45 billion) over the next five years to boost generation capacity. France, Britain, and Japan were likely countries with whom to partner on the reprocessing project, particularly with companies such as France's Areva and U.S.-based Westinghouse Electric, which is majority owned by Toshiba. "The contracting would be done by Eskom, not by government so I would be hesitant to give a figure," Maqubela said on the potential value of the contracts. "Quite clearly something like this would be in the

millions of dollars, definitely," he said. Maqubela said radioactive waste will probably be shipped overseas, where the spent fuel is reprocessed to produce a "mixed oxide fuel" for re-use in nuclear reactors. South Africa, which has Africa's largest uranium reserves, has categorized uranium as a critical mineral. The recently approved nuclear policy also permits uranium mining to ensure supply security. The government plans to regulate uranium exports to secure supplies to Eskom. South Africa plans to build 24-30 new Pebble Bed Modular Reactors (PBMR), with construction of the first demonstration model planned for 2010. The plant would be commissioned in 2014, followed by the commercial reactors three years later. Westinghouse Electric, Eskom, and South Africa's Industrial Development Corporation are investing billions of Rands to prove the PBMR technology. (Engineering News and Reuters, August 27, 2008)

Gold Firms Battle Costs and Falling Output

¶10. (U) New chief executives of Africa's top three gold producers are seeking novel ways to cut costs and expand output to stay afloat. AngloGold Ashanti, Gold Fields, and Harmony Gold (respectively, the world's third, fourth, and fifth-largest producers) have been bailed out thus far by a strong gold price. Gold hit a lifetime high of $1,030.80 in March, but a global economic slowdown has since seen prices tumble to around $826,

removing a shield from ballooning costs and weak output in South Africa. Analysts said companies have had to dig deeper into mines that are already the world's deepest, pushing costs higher and heightening safety risks at a time when the South African mining sector is hit by a shortage of skilled labor and a spate of labor strikes. Analyst Nick Goodwin said, "The margins between costs and the gold price are shrinking, as the companies try to dig out a wasting asset." Shares of the three firms have underperformed gold peers in North America and Australia and failed to fully participate in the gold price rally due to a stronger rand, high costs, power shortages, and safety shutdowns. AngloGold is favored by investors compared to its African rivals owing to a wider production base outside South Africa, which contributes about 40% of its output, and the group's relatively lower costs. Gold Fields has some 80% of its total output from South Africa where safety shutdowns slashed 1.1 million ounces from its reserves. Gold Fields' new CEO Nick Holland wants the group to change from an Afro-centric company and has tinkered with management structure, after having lost three top executives this year. "All of this activity is happening at a difficult time operationally for Gold Fields' South African mines," JP Morgan analysts Steve Shepherd and Allan Cooke said. Holland wants to keep a tight rein on costs rather than look to be bailed out by the gold price. Gold Fields' production and capital expenditure rose to $869 an ounce in the June against a gold price of $895, reflecting a tight margin. Holland wants to cut this to $725. Harmony Gold CEO Graham Briggs has sold mines and slashed the
Q$725. Harmony Gold CEO Graham Briggs has sold mines and slashed the
workforce. Analysts said Harmony must find higher-margin, lower-risk mines and sell the low-grade mines on which it was founded. AngloGold CEO Mark Cutifani has targeted expansions outside of South Africa, with newly acquired mines in Brazil and Argentina, a strategy also favored by its rivals as they seek to diversify. Harmony broadened its global footprint with the joint-venture Hidden Valley project in Papua New Guinea. Gold Fields' has bet its expansions on a $550 million Peru mine. (Mining Weekly and Reuters, August 27, 2008)

Engen Comes Clean

¶11. (U) Durban-based petroleum refinery and fuel supply group Engen claimed to have spent over R60 million ($7.8 million) on environmental improvements over the last decade and to have reduced its emissions by 60%. Managing Director Willem Oosthuizen described the investment as a part of Engen's efforts to receive an ISO 14001 certificate. The ISO 14001 is administered and enforced by the South African Bureau of Standards, and the process for certification entails rigorous site emissions audits. Each plant must create a monitoring system to track potential negative environmental impacts in order to comply with the ISO process. Oosthuizen said it was a "milestone that was part of a journey which Engen started in 1999 when the refinery started voluntary emission reductions." Community

Liaison Forum's Environmental Representative Lawrence Vartharajulu congratulated Engen and noted that there was still room for improvement. (Engineering, August 1-7, 2008)

MTN Boosts Profits and Pursues Expansion

¶12. (U) Sub-Saharan Africa's biggest mobile phone operator MTN posted a 26% rise in first-half adjusted earnings per share (EPS). The South African-based company said the adjusted EPS was in line with the company's forecast for a rise of 23.3 to 28.3%. Subscriber numbers jumped 53% to 74.1 million. However, MTN lost market-share in Nigeria (from 44% to 43%) as it faced stiff competition from the arrival of Kuwait's Zain Telecom. Subscriber numbers in Nigeria increased 12% to 18.6 million. Growth also slowed in South Africa, where the market is maturing and competition is cut-throat, with a 5% rise in subscribers to 15.6 million. MTN held failed merger talks this year with India's Bharti Airtel and Reliance Communications. Some analysts say it could still fall prey to a foreign buyer. MTN did not give concrete forecasts, but said

prospects for the second half remained "positive" despite increasingly competitive markets. It said it would focus on expanding in emerging markets. MTN has been banking on its new venture in Iran, which some investors deem risky given Iran's nuclear stand-off, to boost subscribers as growth in Nigeria and South Africa slows. It said Irancell boosted its subscriber base by 93% to 11.6 million. (Engineering News, August 28, 2008)

SEACOM Cable Project Moving on Schedule

¶13. (U) SEACOM announced that about 10,000 kilometers of the 15,000 kilometer SEACOM fiber-optic, undersea cable has already been manufactured in the U.S. and Japan. "Our manufacturing and deployment schedule is on target and we are confident that we will meet our delivery promises in what is today an incredibly tight market underpinned by a skyrocketing demand for new cables and resulting in worldwide delivery delays," said SEACOM President Brian Herlihy. The SEACOM cable has been structured to meet the policy objectives of participating governments and the New Partnership for Africa's Development (NEPAD), and will be the first to launch services with a planned ready-for-service date of June 2009. The cable's two fiber pairs will have a capacity of 1.28 terabits per second, to enable high-definition television (HDTV), peer-to-peer networks, and Internet Protocol Television. Once completed, it will connect Southern and East Africa with Europe and South Asia and help meet the surging demand for lower-priced Internet on the African continent. Project contractor Tyco Communications will begin shipping terrestrial equipment this month. SEACOM also reported that laying of shore-end cables for each of the landing stations would also start in September. "We are very happy with the progress made over the past five months. From October 2008, the first of three reliance class vessels will start laying the actual cable. The final splicing, which involves connecting all cable sections, will Qfinal splicing, which involves connecting all cable sections, will take place in April 2009. This is expected to allow enough time for systems testing before the commercial launch in June. The cable is planned for service before the 2010 FIFA World Cup kick-off and SEACOM has been working with key broadcasters to meet their broadband requirements. The team is also trying to speed up construction in an attempt to assist with the broadcasting requirements of the FIFA Confederations Cup scheduled for June
¶2009.

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